HOUSING MARKET OUTLOOK

Québec CMA

Canada Mortgage and Housing Corporation

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Economic and demographic: changes on the horizon

In 2007 and 2008, the Québec census metropolitan area (CMA) has stood out with a pace of economic growth above the rates recorded in other cities across Quebec. This performance is related to the investments in infrastructure and the city's 400th anniversary activities. However, the regional economy will moderate; in fact, this has already started to be felt.

This year, the tourism industry is benefiting from the record number of visitors to the multiple events held for the 400th anniversary of the city of Québec. The popularity of these activities is reflected in the tourism indicators: for July 2008, the number of people who contacted the Quebec tourist information centre rose by 37 per cent over the same month in 2007, and the accommodation indicators also show an increase (+13.2 per cent). In 2009, tourism will be less significant, which will reduce the economic spin-offs for the area.

Figure 1

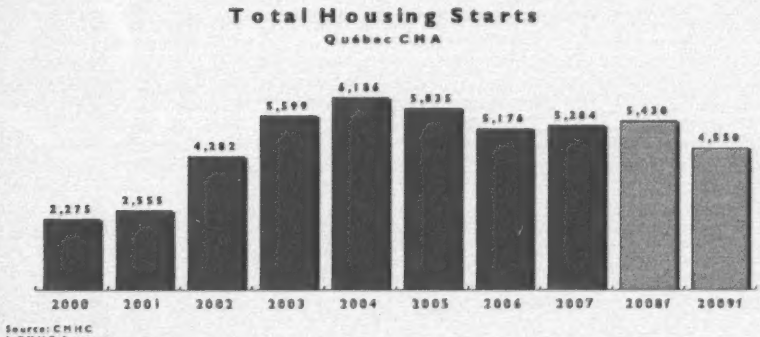

Table of contents

1 Economic and demographic: changes in the horizon

3 Mortgage rates

3 Resale market to ease

3 Housing starts to fall in 2009

4 Rental market: no easing in the short term

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In 2008, the major investments in infrastructure helped generate growth in the job market. The non-residential construction sector benefited from these favourable conditions with a strong increase in the number of jobs and hours worked in the area overall. During the first nine months of the year, 8,100 jobs were created in this sector. Several projects were completed, including the modernization of the Jean-Lesage Airport, the creation of the *Espace 400e* area, the construction of the Lévis Convention Centre and the Sheraton Hotel, the redevelopment of the Promenade Samuel-De Champlain and various sites of the Québec Port, the construction of several office buildings and the completion of road and municipal infrastructure projects. While activity will slow down in 2009, this sector will still benefit from investments in road, institutional and commercial infrastructure, such as the modernization of the sports facilities at the Université Laval (PEPS) and the repairs to the Charles-de-Koninck university pavilion, the pursuit of the modernization work at Robert-Giffard Hospital, and the continuation of several commercial real estate projects. Residential construction also significantly contributed to job creation, as sustained activity continued in 2008. However, a setback is anticipated in this sector for 2009, on account of a downturn in the housing markets.

The overall service sector is showing signs of stagnation in 2008, as the number of jobs fell by 0.1 per cent for the first nine months of the year. In fact, employment is down in wholesale and retail trade (-11.6 per cent), as well as health care (-8 per cent) and business services (-24 per cent), but on the rise in accommodation and food services (+6 per cent), professional, scientific and technical services (+28 per cent), finance, insurance and real estate (+10.5 per cent) and transport and communications (+16.2 per cent). The other service industries show relatively stable results. The gains in professional, scientific and technical services can be explained by the good economic performance in the area, the different infrastructure projects that stimulated job creation in the field of engineering and the regional strategies to develop industries and research centres related to applied technology and life sciences. Over the coming years, this sector will continue to be supported by the economic development efforts and strategies adopted by different stakeholders in the area. The finance, insurance and real estate sector also benefited from a favourable economic environment in 2008. In 2009, this sector will remain strategic for the area, given the presence of the 11 insurance company head offices. Public and parapublic services account for nearly one in three jobs in the area. The plan to reduce the size of the Quebec government will support a decrease in employment in the public service, but health and education needs, in line with political priorities, will bring about an increase in jobs for these services over the next few years.

On the decline since 2007, the manufacturing sector is facing uncertain conditions and will be affected by the anticipated slowdown.

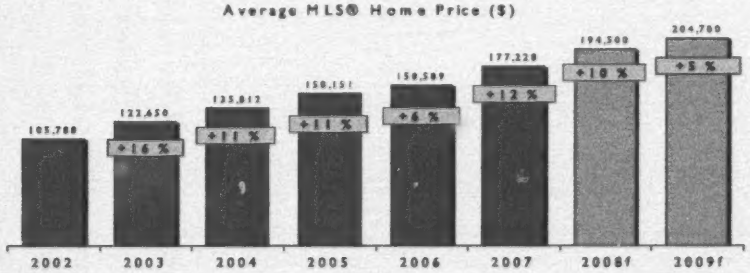
In 2008, job creation in the CMA will be somewhat more modest than in 2007, with a gain between 1.2 per cent and 1.6 per cent, compared to 2.4 per cent in 2007. In 2009, job creation will continue, at a rate between 0.6 per cent and 1 per cent. The unemployment rate, which stands below the provincial average, should remain at around 5 per cent in 2008 and then rise slightly in 2009, as a result of more moderate employment growth.

On the demographic front, the results are expected to show a small decrease, as the more modest

Figure 2

Growth in prices will slow down in 2009

Average MLS® Home Price ($)



Source: CREB
f: CMHC forecasts

growth in the job market should drive down net migration from 4,500 people in 2007 to 4,000 in 2008 and then to 3,800 in 2009. It is likely that the anticipated slowdown in the construction sector will cause an increase in emigration to areas where major projects are planned or petroleum development is under way.

Household formation, for its part, will slow down among young people over the coming years but pick up in the group aged from 65 to 74 years. The number of people aged 75 years or older should also grow less rapidly. These demographic changes in the CMA will have impacts on the housing market and, more specifically, on demand and tenure. In fact, demand will be less significant in the single-detached home segment but will rise for condominiums, as they represent an interesting alternative for households wanting to lighten the burden of maintaining a house.

Mortgage rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one-year posted mortgage rate will be in the 6.00-6.75 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Resale market to ease

Sales recorded through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)® reached a peak in 2007, with just over 8,100 transactions, for an increase of 6 per cent over 2006. The transactions volume will again be high in 2008, but the market will stabilize, with a small gain of 1 per cent. In 2008, new listings have risen, but the steady demand is still giving sellers more of an edge during negotiations. The growth in prices remains above inflation, as the average price has now reached $194,950, up by 10 per cent over 2007. The solid economic performance, the healthy job market and favourable mortgage lending conditions have contributed to maintaining a strong demand. The price level remains higher in the centre of the CMA, as the average price for single-detached houses in this sector is about $60,000 greater than the averages noted on the South Shore and North Shore (third quarter of 2008).

In 2009, the increase in the number of households aged from 65 to 74 years will support a new rise in listings, since some of these households will turn to the condominium market. In addition, the decline in the formation of young households over the coming years will ease pressures on demand for starter homes. The economic slowdown will also drive down demand, but the price level will favour the existing home market, as prices are lower on this market than on the new home market. The price increases will therefore still be above inflation but will be less significant (+5 per cent) than in 2008, as the average price will reach $204,700 in 2009. It is expected that sellers will lose some of their bargaining power. Certain market segments will still remain tight, though, such as the semi-detached home segment, where prices are more affordable. For the first six months of 2008, the average selling price of semi-detached houses attained $166,500, or $43,000 less than the selling price of single-detached homes. The average time to sell is in fact shorter for semi-detached homes (53 days) than for single-detached houses (72 days), and this trend will continue.

The condominium segment is not as tight, although sellers still have a slight edge. In fact, in the second quarter of 2008, the seller-to-buyer ratio was 5.6 to 1, versus 6.3 to 1 for the same period in 2007. In 2008, the new home market is following the same trend, as condominium starts are up significantly (+62 per cent). For 2009, it is expected that condominiums will again be in demand: first, their affordability is a definite asset in a context of sustained price hikes and, second, the greater number of households aged from 65 to 74 years will fuel demand for homes of this type.

Housing starts to fall in 2009

After reaching a peak in 2004, housing starts fell in 2005 and 2006. In 2007, a small increase was observed on account of the rise in the supply of retirement housing. In 2008, starts of this type will set a new record, with the construction

of close to 950 units. Likewise, the supply of new condominiums will also grow significantly (+62 per cent). These two gains will drive up the overall housing supply, bringing total starts to 5,430 units (+3 per cent) this year.

In 2008, the decrease in single-detached home starts will reach 10 per cent, as rising prices and municipal intensification efforts are rather favouring semi-detached houses. In fact, this phenomenon has now been observed for several years in the CMA. In 2009, the economic slowdown, along with the formation of fewer young households and a growing supply of existing homes, will weaken demand for new single-detached houses. These factors, combined with the higher prices on the new home market, will cause starts to fall by 15 per cent in 2009. With the lower demand, prices will rise less significantly (+5 per cent). Semi-detached houses (multiple-family housing segment), however, will remain popular among consumers, on account of their relative affordability, so starts should remain at the same level as in 2008.

Starts of multiple-family (semi-detached, row, condominium and rental) housing will be on the rise in 2008 but will decline markedly in 2009. This situation will be due to the decrease in demand for rental housing for seniors. In fact, not only did starts of this type set records in 2007 and 2008, but fewer people will be turning 75 years old in the near future, which will curb demand for retirement housing. This is evidenced by sharply rising inventories and a major increase in the short-term supply in August 2008. In addition, the vacancy rate is expected to climb in 2009.

Condominium starts will be numerous in 2008 and again in 2009. Dwellings of this type are popular thanks to their affordable prices and to the changes in the demographic profile in the CMA. The formation of more households aged from 65 to 74 years and the appeal of this housing type, even among first-time home buyers, will keep demand strong, and condominium starts will reach close to 1,100 units in 2009. This result represents a decrease of 10 per cent from the level recorded in 2008 but corresponds to the average for the last five years.

The traditional rental market is running out steam in 2008, and only small projects with 20 units or less are being added to the existing housing stock. High construction costs are limiting the development of the rental market, which remains the most affordable housing market segment. In 2009, starts should remain below the average for the last five years. Demand in this segment is coming mainly from newcomers to the area, as household formation among people aged less than 35 years will be slightly negative in 2008 and 2009.

Rental market: no easing in the short term

The last time the traditional rental housing market was relatively softer dates back to 1998, when the vacancy rate stood at 3.3 per cent. At the beginning of the current decade, the rates reached levels of 0.3 per cent and 0.5 per cent. Since then, the market has eased somewhat, but the vacancy rates remain very low. This situation will persist in 2008 and 2009, as rental housing construction is idling and remains well below the volumes observed over the last five years. The vacancy rate will stay at 1.2 per cent in 2008 and 2009, given that net migration will remain at high levels (4,000 and 3,800 people, respectively) and that fewer renter households will be accessing homeownership as a result of the economic slowdown.

The average rent for two-bedroom apartments will rise by 2 per cent in 2008 and by 1.5 per cent in 2009, on account of changes in energy costs.

Forecast Summary
Québec CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	7,764	7,685	8,110	8,190	1.0	8,300	1.3
MLS® Active Listings (annual average)	3,101	3,444	3,090	2,950	-4.5	3,450	16.9
MLS® Average Price ($)	150,151	158,589	177,229	194,950	10.0	204,700	5.0
New Home Market							
Starts:							
Single-Detached	2,528	2,226	2,144	1,930	-10.0	1,650	-14.5
Multiples	3,307	2,950	3,140	3,500	11.5	2,900	-17.1
Starts - Total	5,835	5,176	5,284	5,430	2.8	4,550	-16.2
Average Price ($):							
Single-Detached	210,243	207,227	236,794	260,500	10.0	273,500	5.0
New Housing Price Index (% chg.)	4.3	5.2	4.0	5.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	1.4	1.5	1.2	1.2	-	1.2	-
Two-bedroom Average Rent (October) ($)	621	637	641	654	-	664	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	377,600	376,600	385,700	391,000	1.4	394,000	0.8
Employment Growth (%)	3.9	-0.3	2.4	1.4	-	0.8	-
Unemployment rate (%)	5.6	5.2	5.0	5.0	-	5.1	-
Net Migration [1]	3,940	4,170	4,500	4,000	-11.1	3,800	-5.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), FCIQ
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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